SKILLS AND TRAINING

There are significant differences between the union and nonunion sectors with regard to how different types of labor are used on construction projects. In addition, methods of training workers vary considerably between these sectors.

Skill Levels

In the union sector, how workers of different crafts and skill levels are used is determined by collective bargaining agreements. Virtually all such agreements specify that work be assigned along strict craft lines--that is, carpenters do carpentry and no other tasks. Moreover, these agreements generally specify formal skill ratios between journeymen and apprentices, so that substitution of less-skilled for more-skilled workers is limited. Finally, such agreements limit the extent that union firms can use semi-skilled workers to perform helpers' duties for journeymen in crafts such as carpentry, electrical work, plumbing, and bricklaying.

In the nonunion sector, on the other hand, work assignments are generally more flexible. Craftsmen usually perform various tasks--for example, carpenters might also do ironwork. Often, a category called "general building mechanic" is made up of workers who perform assorted chores. Nonunion contractors also make extensive use of semi-skilled helpers or on-the-job trainees to perform routine tasks.

Training

Most construction skills are learned through industry training programs. Formal training--usually by apprenticeship--includes learning a specified sequence of subjects through on-the-job experience and classroom training. In contrast, informal training occurs as skills are learned through the performance of tasks in the production process. Such informal training has no fixed guidelines and may occur in a number of ways, including observing or learning by doing; but generally, it does not involve classroom instruction. Although a majority of craft workers learned their skills through the latter process, many persons have concluded that informal training has limitations, because it tends to produce workers with narrow ranges of competence, rather than a well-rounded journeymen who can perform a wide range of tasks relevant to the particular craft.

Formal training programs are more prevalent in the union sector than in open shops. Rules for apprenticeship programs in the union sector are promulgated jointly by unions and management, and programs are financed

by areawide funds to which employers contribute in proportion to their hours of work by employees in the craft. Some large, nonunion contractors have also established their own programs, while others are run by contractors' associations, but 85 percent of all apprentices in programs approved by the Department of Labor's Bureau of Apprenticeship and Training were in union programs in 1979. The Business Roundtable's Construction Industry Cost Effectiveness Project recently estimated that fewer than 10 percent of persons completing craft training programs were in the nonunion sector, though this sector now performs 60 percent of all construction work. 6/

6. See Bureau of National Affairs, Daily Labor Report (December 3, 1982), pp. A-2 to A-3.

CHAPTER III. EFFECTS OF DAVIS-BACON ON FEDERAL CONSTRUCTION COSTS AND ON THE ECONOMY

The Davis-Bacon Act has been criticized as imposing costs in excess of its benefits. In particular, procedures used to determine prevailing wages and the act's associated administrative requirements potentially drive up federal construction costs. To the extent that this occurs, Davis-Bacon may also cause increases in general price levels. Thus, critics also point to more general adverse effects, charging that Davis-Bacon may reduce the overall level of construction employment and may particularly limit employment opportunities in the open-shop (nonunion) sector.

This chapter first describes procedures used to administer the act and then examines the act's effects on federal construction costs, inflation, and employment. Because substantially less quantitative evidence exists for the latter two aspects, the analysis emphasizes effects on federal costs.

ADMINISTRATIVE PROCEDURES FOR DAVIS-BACON

The Davis-Bacon Act is administered both by whatever federal agency is contracting to have work done and by the Department of Labor (DoL). The responsibility of the former is to determine whether Davis-Bacon applies to a particular project and to monitor compliance for those projects. After defining which classes of laborers and mechanics the act covers, in addition to what geographic area and other similar construction work to consider, DoL determines the local prevailing wages.

In fact, DoL issues two types of wage determinations: for areas and for specific projects. In setting both, DoL considers information from statements submitted by contractors, collective bargaining agreements, wage determinations by state and local agencies, and the department's own wage surveys. Area wage determinations, published in the Federal Register, reflect rates determined to be prevailing in the major construction categories used (see Chapter II) for specific geographic areas. Such determinations--which remain in effect until superceded or modified by new determinations or withdrawn--are issued in markets in which wage patterns are stable and a large volume of construction is under way or recently completed. For projects outside these areas, decisions for specific projects are issued at the request of the contracting agency; these remain in effect for 120 days. In 1982, the DoL issued 1,238 area and 12,788 project determinations.

Because of the publication of new DoL regulations--and subsequent litigation--the status of many current procedures for issuing wage determinations is uncertain. In May 1982, the DoL published final regulations that would have substantially changed many procedures for defining prevailing wages, geographic areas, and classes of laborers and mechanics, and that would have modified compliance procedures. All but one regulation--the one that would have redefined prevailing wages--were disallowed in a recent U.S. District Court decision. The U.S. Court of Appeals partially reversed this decision, allowing the proposed changes in defining geographic areas and partially allowing the proposed changes for defining labor classifications. 1/ Until June 28, if there was no majority paid at an identical rate, the wage paid to at least 30 percent of workers was used. The May 1982 regulations eliminated this step--often called the "30 percent rule." The current definition of prevailing wage in effect is the wage rate paid to a majority of workers in a particular classification of work on similar construction in a locality. If no uniform rate is paid to at least half the of workers in a given classification, the average of all wages is used. (The results of the several methods for determining prevailing wages are illustrated in the box opposite.)

Current DoL procedures for defining classes of laborers and mechanics generally restrict the use of helpers and trainees on Davis-Bacon projects, although new regulations would expand these workers' use. The DoL issues prevailing wages for a number of crafts, and for laborers, but seldom for helpers in these crafts; thus, in most cases, all workers in a particular craft must be paid journeyman's wages. A helper classification has occassionally been recognized if it constitutes a separate and distinct class of workers, if the particular helper classification prevails in the area, or if the helper is not used as an unofficial apprentice or trainee. Also, a lower wage for apprentices is issued for participants registered in training programs approved by DoL's Bureau of Apprenticeship and Training. These requirements are intended to ensure that apprentices and trainees actually receive training and are not used to avoid Davis-Bacon requirements. As a result of the Court of Appeals ruling, DoL will likely issue new regulations that will allow for a somewhat expanded use of helpers on Davis-Bacon projects. 2/

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1. See Bureau of National Affairs, Daily Labor Report (December 27, 1982), pp. A-9 through A-10 and (July 6, 1983), pp. A-12 through A-14.

2. The May 1982 regulation would have loosened the restrictions on the helper classification in two ways; the definition of helpers was expanded so they need not perform separate and distinct tasks from those of journeymen, and the helper classification need only have been an "identifiable" class of labor rather than one that "prevails" in the area. The District Court disallowed both these changes. The Court of

EXAMPLE. POSSIBLE PREVAILING WAGE DETERMINATIONS UNDER DIFFERENT LOCAL LABOR CONDITIONS

This illustration, of a hypothetical locality and worker classification (possibly carpenters), depicts how prevailing wage determinations can vary depending on the distribution of the work force among hourly rate levels.

Case 1		Case 2		Case 3	
Percent of Workers	Hourly Wage	Percent of Workers	Hourly Wage	Percent of Workers	Hourly Wage
75	$8.00	25	$8.00	48	$8.00
25	10.00	25	8.01	27	9.00
		25	8.02	25	10.00
		25	10.00		

Prevailing Wage	Prevailing Wage	Prevailing Wage	
		(old)	(new)
$8.00	$8.51	$8.00	$8.77

In Case 1, a clear majority of 75 percent earning precisely $8.00 an hour produces a prevailing wage of $8.00--$2 less than 25 percent earn. In Case 2, though the same three-fourths earn rates that differ by only pennies from each other's and from workers earning $8 in Case 1, the prevailing wage determination is influenced upward to $8.51 by the 25 percent earning the $10 hourly rate; this is because the three-fourths earning $8.00, $8.01, and $8.02 are prevented by these tiny differences from being considered a majority. Finally, in Case 3, if the old 30-percent rule were still in force, the $8.00 rate would be considered to prevail as the one rate paid to more than 30 percent of all workers; now, however, an areawide average of $8.77 would be considered the prevailing rate.

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2. Continued.
Appeals allowed the expanded definition of helpers but disallowed the change from a prevailing class of labor to an identifiable one. The regulation also provided that no more than two helpers should be used for every three journeymen on a Davis-Bacon project.

To satisfy the requirement of the Copeland Anti-Kickback Act--which makes it a federal crime for contractors to induce kickbacks from workers--current DoL regulations also require Davis-Bacon contractors to submit weekly payroll and compliance information. The information may be submitted in any form in which the contracting firm keeps records. In addition, a weekly statement of compliance with the act is required from the contractor. The new regulations would have eliminated the weekly payroll submissions but maintained the statement of compliance. These changes were disallowed by both the District Court and the Court of Appeals.

EFFECTS OF THE ACT ON FEDERAL CONSTRUCTION COSTS

The Davis-Bacon Act and how it is administered might raise federal construction costs in three ways:

- By raising wages on federally funded and federally assisted construction above competitive rates;
- By requiring labor to be used in a more costly manner--in particular, impeding use of semi-skilled helpers; and
- By requiring submission of weekly payroll records by federal contractors.

Though any of the above might lead to cost increases for certain aspects of a construction project--such as wage and benefit payments--they do not necessarily raise total project costs proportionately because of possible offsetting factors. Increased wages might be partly offset if, for example, they led to increased productivity by attracting more highly skilled workers. (Evidence on the extent to which this occurs is inconclusive--see Appendix.)

Though the total impact of the Davis-Bacon Act on federal construction costs is difficult to assess, the CBO estimates that it might raise costs by approximately 3.7 percent--equivalent to an increase in federal construction outlays of about $1 billion during fiscal year 1982. As is discussed below, however, some of the data for calculating this impact are limited, so the estimate should be regarded as uncertain.

The Effects of Davis-Bacon on Wages

Davis-Bacon might raise wages on federal construction projects above competitive rates in two basic ways. For one, as discussed in Chapter I, imposing any minimum wage will, in many cases, increase wage rates above those that would occur without the law, because some contractors would

otherwise pay wages below the minimum rate. (Of course, in cases in which Davis-Bacon sets minimum wages that are lower than would otherwise have been paid, the act does not have this effect.) In addition, procedures used to administer the act might raise wages further, either by favoring union wages, by basing wages on dissimilar--or more complicated--types of construction, or by issuing wages based on a different higher-wage locality.

Prevailing Wages and Union Rates. Because union wages in construction are substantially higher than those paid in the nonunion sector, the current definition of prevailing wages potentially raises wages paid on federal construction projects above competitive levels, especially when nonunion rates are prevalent in a locality. Though some of the DoL's administrative procedures--in conjunction with the definition of "prevailing"--may favor union scales in some cases, the evidence suggests there is no consistent bias toward union rates. It does suggest, however, that current administrative procedures raise wages on federal projects somewhat above average area rates.

Several DoL procedures could potentially favor union rates in some localities. Because several thousand wage determinations are required each year, DoL cannot undertake a field survey for each area. Instead, the department often relies on the voluntary submission of wage data by contractors and other interested parties. This method may cause union wages to be overrepresented; union contractors have ready access to such information, which is contained in collective bargaining agreements, but nonunion contractors may have difficulty compiling payroll information. In addition, union workers receive uniform wages--specified by contract--while nonunion rates tend to vary considerably. For both reasons, either the majority rule or the 30 percent rule (if it were reinstated) might favor union rates--since wages that vary by as little as 1 cent are considered not identical (see boxed example). Moreover, many area determinations are based on collective bargaining agreements rather than on surveys, because union rates have traditionally prevailed. One study of 530 wage determinations in effect in October 1976 found that surveys were not made for 302, or 57 percent, of them. 3/ In all areas not surveyed, determinations were based on collective bargaining agreements.

Despite these factors, recent evidence indicates that the DoL's wage determinations do not necessarily favor union scales. Rather, it shows that union rates tend to be issued for geographic areas and types of construction that are relatively heavily unionized, and that nonunion rates are used in areas where the nonunion construction work is dominant. In a 1976 survey

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3. See General Accounting Office, The Davis-Bacon Act Should be Repealed (April 27, 1979).

of contractors in eight metropolitan areas, nearly all Davis-Bacon determinations in commercial construction were found to reflect union rates, but determinations in residential construction more closely reflected the amount of open shop activity in the localities. 4/ An internal review of federal housing program wages by the Department of Housing and Urban Development found that 77 percent were open-shop rates--even in areas with high proportions of union workers. 5/ In addition, a DoL review of wage determinations in effect in March 1981 showed that Davis-Bacon rates were not based on union scales in a majority of localities. In residential construction, union wages were used in 14 percent of all localities, while in commercial, heavy, and highway construction--all of which are more heavily unionized than residential construction--union rates prevailed in about half the localities. 6/ Finally, DoL found that, of a sample of wage determinations in effect for April 1981, 30 percent resulted from applying the 30 percent rule, while 28 percent were based on a majority rule, and 42 percent on area averages. Overall, these determinations--including those that used collective bargaining agreements rather than wage surveys--were generally consistent with patterns of unionization by geographic area and type of construction.

On the other hand, though wage determinations are not biased toward union scales, overall they are above the average rates in the localities. A DoL study of the April 1981 wage determinations found that if average wages were used in all localities in which either the majority rule or 30 percent rule had been used, wages on federal projects would have been reduced by between 1 percent and 2 percent. 7/

Similarity of Projects. Available evidence suggests that wage determinations are often based on dissimilar projects, and that they are higher than they should be as a result. In each of DoL's wage categories--residen-

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4. For example, in two cities with little open shop activity, union wages were chosen. In four cities with a large nonunion sector, however, Davis-Bacon rates were lower than the average open-shop rate. See Clinton Bourdon and Raymond Levitt, Union and Open-Shop Construction, Lexington Books (1980).

5. See Bourdon and Levitt, Union and Open-Shop Construction, p. 95.

6. Unpublished data provided by U.S. Department of Labor, Division of Contracts. Union rates prevailed in building (55 percent of localities), heavy (50 percent), and highway construction (47 percent).

7. See U.S. Department of Labor, Final Regulations, Impact and Regulatory Flexibility Analysis of Davis-Bacon Related Regulations (1982).

tial, commerical building, heavy construction, and highway construction--there may be many dissimilarities in local labor practices and wages owing to size, type, and complexity of construction. Though DoL procedures require that these dissimilarities be accounted for, a recent study by the General Accounting Office (GAO) found that "...many of the wage rates prescribed by (the Department of) Labor were not based on similar construction work." 8/ A number of cases have also been cited in which generally higher building rates have been applied to heavy construction. 9/ The same report contends that, though the legislative history of the act shows that rates should be based on similar nonfederal projects, DoL includes federally financed projects in surveys. This practice is likely to raise Davis-Bacon rates, and these errors tend to become self-perpetuating. The GAO estimated that, of 20 craft determinations studied, wages on 14 would have been 4 percent to 50 percent lower if data from federal projects had not been included. Six determinations, however, would have been 3 percent to 23 percent higher.

Geographic Areas. In some cases, Davis-Bacon determinations reflect wages from localities--usually defined by DoL as counties--other than the one in which the construction is actually to take place. Whether this raises prevailing wage determinations is uncertain. Particularly in rural areas, the volume of construction may be small and there are often no similar projects undertaken in the previous year. In these cases, DoL has used data from the geographically nearest similar project; this may result in using urban wage rates--which are generally higher--for rural areas. 10/ To whatever extent this is true, local contractors in rural areas might be discouraged from bidding on federal projects, because doing so would disrupt their normal wage practices. Indeed, a recent survey of rural construction found

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8. See General Accounting Office, The Davis-Bacon Act Should be Repealed, p. 50.

9. Examples are the Arlington County (Virginia) segment of Washington D.C. Metro and the Manned Space Center in Houston (Texas). See Martha Norby Fraundorf and others, "The Effects of the Davis-Bacon Act on Construction Costs in Non-Metropolitan Areas of the United States," reprinted in The Impact of the Davis-Bacon Threshold on Small Business Construction Contractors, Hearing before the U.S. Senate, Subcommittee on Government Procurement of the Committee on Small Business, February 2, 1982.

10. On average, urban rates in 1979 were 25 percent higher than wages in rural areas. See Table 1 in Chapter II. Under the Court of Appeals decision, however, DoL will likely issue new rules banning the use of urban wages for rural areas.

that 47 percent of private construction projects were built by local contractors, compared with only 28 percent on public construction projects. 11/ The fact that more than half of all private projects were built by contractors from other counties suggests, however, that local labor markets do encompass many counties. Moreover, 35 percent of private projects represented in that survey were built by urban contractors, suggesting that urban wage rates may be brought into some rural markets by forces other than Davis-Bacon.

Overall Effects on Construction Wages. Though there are many estimates of Davis-Bacon's overall impact on federal construction wages, a number of methodological problems limit these estimates' usefulness. The impact of using alternative prevailing wage definitions--which is only part of the potential effect the act has on wage rates--has also been estimated. The latter estimates suffer from fewer methodological problems and are used in Chapter IV for calculating the impact of various options.

The costs to the federal government attributable to Davis-Bacon's effects on wages have been estimated to range from $75 million to $1 billion a year (see Appendix). These costs reflect estimates of wage increases ranging from just under 2 percent to greater than 11 percent--depending on the occupations, localities, and types of construction studied. 12/ These impacts are then translated into federal construction cost increases by being applied to a measure either of the value of public construction or of actual federal budget outlays. For example, the DoL estimated that, in 1982, the difference between average wages on Davis-Bacon projects and on private projects was 5.3 percent in building construction and 5.4 percent in residential construction--implying a cost to the federal government of $568 million in 1982. 13/ This estimate--approximately the mid-point of the range of estimates--is used as part of the total cost impact (3.7 percent) given above.

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11. See Fraundorf, "The Effects of the Davis-Bacon Act."

12. A number of studies have attempted to estimate the wage impact of Davis-Bacon by several methods. For one, Davis-Bacon determinations have been compared to average wages obtained from Bureau of Labor Statistics (BLS) surveys. Another method, used by GAO, has been to compare Davis-Bacon rates with prevailing wages calculated from GAO's own survey. Finally, comparisons have been made between Davis-Bacon rates and those that would be issued under alternative definitons of prevailing wage.

13. For details on the DoL estimate, see U.S. Department of Labor, Final Regulatory Impact and Regulatory Flexibility Analysis on Davis-Bacon Related Regulations (1982).

Most of the studies have been criticized, however, for applying data for a limited number of crafts, localities, or types of construction to the universe of federal construction project. 14/ Critics point to the wide range of these estimates as evidence that this approach can be misleading. Moreover, all of the studies have been criticized for translating wage increases directly into cost increases, without accounting for productivity differences between workers at different wage levels, which might partially offset the higher wage costs. Unfortunately, data that could improve the estimates are not available.

The Effect of Davis-Bacon on the Use of Labor

Although the effect of Davis-Bacon on wages receives the most attention, the act's largest potential cost impact may derive from its effect on the use of labor. For one thing, DoL wage determinations require that, if an employee does the work of a particular craft, the wage paid should be for that craft even if the employee does not carry that job title. For example, carpentry work must be paid for at carpenters' wages, even if performed by a general laborer, helper, or member of another craft. In addition, as discussed above, the DoL generally has not issued wage determinations for helper and apprenticeship classifications, so some work that does not require a skilled craftsman has been paid at craftsman rates. 15/ Neither of these procedures reflects prevailing practice in much of the industry, and they both probably reduce flexibility and inflate costs.

In particular, these procedures may remove any cost advantage that nonunion contractors offer and may discourage them from bidding on federal contracts. As mentioned in Chapter II, nonunion contractors generally do not strictly follow traditional craft lines, but instead provide some training to workers in a number of trades and use them for various tasks that cross craft lines. In many firms, these workers are grouped in the separate classification, "general building mechanic." In cases in which DoL does not issue this classification, the workers must be paid a composite rate reflecting several crafts, weighted for how much time is spent on each task; this increases the nonunion contractors' costs for labor. In contrast, these requirements are likely to have little impact on the costs of union

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14. Although the $568 million estimate of the wage impact suffers from some of these problems, the DoL was able to correct for some of the sampling problems.

15. There will likely be a somewhat expanded issuance of helper classifications when DoL formulates new regulations pursuant to the recent Court of Appeals decision.

employers, since collective bargaining agreements (as discussed in Chapter II) usually specify similar restrictions on assignment of work by craft jurisdictions.

Moreover, open shop firms make much more extensive use of helpers than do union firms. Under most determinations, Davis-Bacon leaves these contractors the choice between paying helpers and trainees a journeyman's wage--thereby increasing costs--or attempting to establish training programs certified by Bureau of Apprenticeship and Training, which might provide training that was not fully compatible with the normal operation of the employer. 16/

A DoL regulatory impact analysis concluded that the current policies regarding semi-skilled workers--helpers, in particular--do not adequately reflect local practice and therefore raise project costs. The DoL estimated that allowing unlimited use of helpers on federal construction projects would have reduced costs by approximately $480 million in fiscal year 1982. If this substitution had been limited to a ratio of two helpers for every three journeymen--as proposed in changes to the DoL regulations--the saving would have been approximately $360 million in that year. 17/

Compliance Costs Under Davis-Bacon

Compliance with Davis-Bacon as currently required under the Copeland act may slightly increase the costs of federal construction. Submitting weekly payroll information--hours worked, wages, earnings, deductions, and net pay--for each employee working on a project covered under Davis-Bacon may impose costs on some contractors. These procedures probably have little impact on larger contractors who maintain full-time clerical staff, particularly as payroll records can be submitted in whatever form contractors choose. For smaller contractors who do not maintain such clerical personnel, however, weekly payroll reports might necessitate hiring additional staff, which would raise costs. The DoL has estimated that the costs

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16. See Levitt and Bourdon, Union and Open-Shop Construction.

17. These estimates have been criticized as too high because they assume that helpers can replace journeymen at a one-to-one rate. Though in some cases, one helper might accomplish less of a certain task than one journeyman could, a number of tasks probably do not require a journeyman's skills. Moreover, the DoL described a number of factors that might cause its estimates to be too low. To adjust for these opposing factors, the DoL produced a range of estimates (reflecting varying assumptions) and then chose the mid-point as its final estimate.

to federal contractors attributable to compliance requirements totalled $100 million in 1982. 18/ Because DoL assumed the same percentage cost for all contractors, and because small contractors account for only half of all contracts, the actual impact is probably about half that estimate.

Effects on Federal Construction

The overall impact of Davis-Bacon on federal construction costs is difficult to assess for several reasons. The total impact depends both on the cost effects discussed above and on the "economic" costs of the act--namely those costs attributable to diminished efficiency in the use of resources; these are difficult to quantify in terms of direct impact on federal spending. In addition, the magnitude of economic factors that might offset these costs--increased productivity, for example--is uncertain. Finally, a number of longer-term factors might be important. If, for example, Davis-Bacon has the effect of augmenting the total amount of skill training available--as proponents of the act claim--future construction costs could be reduced.

On the basis of the evidence available, the Congressional Budget Office estimates that Davis-Bacon increased the total costs of federal construction by about 3.7 percent, or just over $1 billion, in fiscal year 1982. Estimates of the three major cost factors--wages, labor use, and compliance costs--were added together to derive a total cost estimate. Of course, this estimate is too low to the extent that some costs cannot be quantified and too high to the extent that offsetting factors cannot be included. As stated above, DoL has estimated that, in 1982, the differential between average Davis-Bacon wages and average wages for all construction--a proxy for the wage impact of the act--lead to an increase in federal spending of $570 million, or 1.9 percent of federal construction costs. In its analysis, CBO used the DoL estimate of nearly $500 million, or 1.6 percent, in 1982, assuming there were no Davis-Bacon Act, unlimited substitution of lower-paid helpers for higher-paid journeymen and laborers would occur. Finally, the estimate of $50 million for compliance costs to small contractors--about 0.2 percent--was added to the other two estimates.

EFFECTS OF THE ACT ON THE ECONOMY

Though the debate over the cost aspects of Davis-Bacon receives the most attention, the act has several other potential economic effects. These

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18. This estimate was based on a 1972 contractors' survey that determined these costs to be 0.5 percent of construction costs. The DoL reduced this estimate by one-third to correct for overstatement.

include increased inflation, lower construction employment, and a different composition of construction employment, both between union and nonunion workers and between minorities and nonminorities.

The Effect on Inflation

If higher wages on federal projects spill over to private construction, the act might have a direct impact on construction prices. But this appears not to occur frequently. If wages on federal projects are higher than on other construction projects, private contractors might have to raise wages to maintain their work forces, particularly in areas with large amounts of government construction. This effect might be concentrated on nonunion contractors who do some federal construction--especially if Davis-Bacon rates are set higher than the wages these builders normally pay. Since some of their workers might be employed on private projects and some on Davis-Bacon projects, contractors might be pressed by employees to raise the wages of the private-project workers. A recent survey indicated, however, that open shop contractors handle this problem in various ways, including rotating workers to higher paying projects; and thus any wage spillover would apparently be limited to relatively few firms. 19/

Any increases in construction wages resulting from Davis-Bacon might also spread to other sectors of the economy, although evidence on this possibility is not conclusive. Many analysts believe that wages among key sectors of the economy are highly interdependent--that is, wage changes in any one sector depend on those in other sectors, because workers seek to maintain or improve their relative positions. (For example, wages in union sectors might affect nonunion wages, and wages in construction might affect those in manufacturing.) Thus, if Davis-Bacon were to cause a more rapid rise in construction wages, workers in other industries might press to receive similar increases. Although researchers have found evidence that such wage patterns exist in the economy, no direct link between construction wages in particular and those in other sectors has been established. 20/

Finally, Davis-Bacon may affect general price levels through any impact it has on federal spending, although this effect is likely to be quite

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19. See Bourdon and Levitt, Union and Open-Shop Construction.

20. See for example, Robert Flanagan, "Wage Interdependence in Unionized Labor Markets," Brookings Papers on Economic Activity, no. 3, Brookings Institution (1976), pp. 635-73; and Susan Vroman, "The Direction of Wage Spillovers in Manufacturing," Industrial and Labor Relations Review 36 (October 1982), pp. 102-112.

small. If higher wages led to increased federal spending, rather than to fewer projects, some impact on prices might occur through rising aggregate demand. But this would depend on the state of the economy, among other factors. Though some further inflationary effects might occur if the increased spending led to larger federal deficits, this link is uncertain. 21/

Employment Effects

By increasing costs, Davis-Bacon probably reduces employment on federally funded construction projects. Certain federal housing assistance programs, for example, provide a fixed level of dollars to aid in the construction of residential units. As a result, the number of units and quality of units, or both--and, hence, the number of construction workers--would decline with rising construction costs. In addition, if government demand for construction projects--and the attendant amount of employment--are sensitive to cost, then the amount of federally financed construction would decline as the cost per project rose. This might occur if, for example, next year's budget authority for a construction account were limited to some fixed percentage increase (unrelated to any rise in costs) over this year's account.

To the extent that Davis-Bacon discourages open shop participation in federal construction, it alters the mix of construction employment in favor of union workers. Open-shop contractors have claimed that they are reluctant to bid on federal contracts covered by Davis-Bacon because of the high wages, compliance costs, and especially the skill-use provisions. In one survey, 23 percent of open shop contractors reported that they believed that working on Davis-Bacon covered projects would be disruptive to their normal practices and therefore that they would not be likely to bid on federal contracts. 22/ In addition, 20 percent of open shop contractors who performed federal construction stated that they would not be interested in bidding on projects covered by Davis-Bacon again.

Finally, though the effect of Davis-Bacon on the employment and training of minority group workers is often debated, little evidence is available to evaluate this issue. To the extent that infrequent use of helper and trainee classifications on Davis-Bacon projects discourages the hiring of unskilled minority workers, these groups would receive less of the training and

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21. See Congressional Budget Office, Prospects for Economic Recovery, A Report to the Senate and House Committees on the Budget--Part I (February 1982).

22. See Fraundorf, "The Effects of the Davis-Bacon Act."

on-the-job experience that might lead to entry into skilled crafts. On the other hand, the skills necessary to achieve journeyman status might best be gained in bona fide apprenticeship programs such as those allowed under Davis-Bacon. If the Davis-Bacon requirement that approved training programs be provided to pay lower wages to trainees means that minority workers are more likely to become journeymen, minority workers' position is enhanced by the act.

CHAPTER IV. OPTIONS FOR CONGRESSIONAL ACTION ON THE DAVIS-BACON ACT

The Davis-Bacon Act might be changed in several ways that would permit reductions in federal outlays. The most extreme option, of course, is repeal; over the first five years after repeal, more than $5 billion might be saved. Of course, repeal would also mean elimination of any of the act's potential benefits. Other more moderate options, by decreasing Davis-Bacon coverage or changing the way the act is administered, could still reduce federal expenditures substantially while preserving most of the act's benefits. Of the six options considered in this chapter, five would retain the statute in some modified form:

- Repealing Davis-Bacon altogether;
- Raising the minimum threshold level below which Davis-Bacon does not apply;
- Including a specific definition of prevailing wage in the act;
- Allowing the expanded use of helpers on federal projects;
- Reducing required compliance activities; and
- Combining some or all of the above options.

Besides reducing federal outlays, each of these options would likely produce certain other effects in common, such as more competitive bidding for federal contracts.

To the extent that the productivity effects discussed in Chapter III are not accounted for, estimates presented in this chapter may overestimate the true savings from changes in Davis-Bacon. The estimates are based on the DoL's Final Regulatory Impact Analyses (FRIA), which--though superior to other estimates of the impact of Davis-Bacon in several ways--could not adjust for productivity differences between workers of different skill and wage levels because the necessary data do not exist. On the other hand, a number of other factors--which also could not be accounted for--might offset the effect of not including any productivity differences.